

## Message Text

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ACTION EA-09

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E.O. 11652: N/A

TAGS: ECON EFIN EINV MY

SUBJ: PACE OF ECONOMIC RECOVERY QUICKENS; PRIME MINISTER

EMPHASIZES IMPORTANCE OF PRIVATE SECTOR ROLE

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1. SUMMARY: PACE OF ECONOMIC ACTIVITY, INCLUDING EXPORTS, INCREASED SIGNIFICANTLY DURING THIRD QUARTER 1975. INFLATION REDUCED TO 4.5 PERCENT FOR YEAR. IN SUPPLY BILL SPEECH, PRIME MINISTER NOTES IMPROVING COMMODITY PRICES, ESPECIALLY RUBBER, AND PROJECTS REAL INCREASE IN GDP OF 6 PERCENT IN 1976. PM EMPHASIZED IMPORTANCE AND CENTRAL ROLE OF PRIVATE SECTOR SPENDING TO MALAYSIAN ECONOMIC DEVELOPMENT. END SUMMARY.

2. ON JANUARY 27 CENTRAL BANK RELEASED THIRD QUARTER 1975 DATA INDICATING MORE PRONOUNCED PICK-UP IN ECONOMIC ACTIVITY OVER MODERATE INCREASE IN SECOND QUARTER. EXPORT EARNINGS, WHILE FLAT IN SECOND QUARTER, INCREASED 14.6 PERCENT IN THIRD, DUE INCREASE IN VOLUME. IMPORTS ROSE 7.9 PERCENT IN THIRD, ONE PERCENT IN SECOND. THUS, TRADE ACCOUNT MOVED TO SURPLUS POSITION FROM DEFICIT IN SECOND. THIRD QUARTER PRODUCTION INCREASED OVER SECOND AS FOLLOWS: AGRICULTURE, FORESTRY AND FISHING, 19 PER-

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CENT; MANUFACTURING 15.3 PERCENT; MINING NOMINAL. SUBSTANTIAL

DRAWDOWN FOREIGN MARKET LOANS PLUS TRADE SURPLUS MOVED BALANCE OF PAYMENTS FROM DEFICIT PREVIOUS TWO QUARTERS TO US\$147 MILLION SURPLUS IN THIRD QUARTER. SEPTEMBER 30 NET OFFICIAL RESERVES, US\$1,490 MILLION, EQUIVALENT SIX MONTHS RETAINED IMPORTS. CONSUMER PRICE INDEX INCREASED ONLY 0.6 PERCENT IN THIRD QUARTER.

3. DEPUTY FINANCE MINISTER, ON BEHALF PM AND MINISTER FINANCE, INFORMED SENATE DURING INTRODUCTION OF SUPPLY BILL OF LATEST GOM THINKING ON PROSPECTS FOR MALAYSIAN ECONOMY DURING 1976. REAL INCREASE GDP 1976 EXPECTED BE 6 PERCENT, BASED ON 5 PERCENT INCREASE AGRICULTURE, 8 PERCENT INCREASE MANUFACTURING AND 6 PERCENT INCREASE SERVICES. TRADE ACCOUNT EXPECTED IMPROVE SUBSTANTIALLY, BASED ON IMPROVED PRICES EXPORT COMMODITIES, NOTABLY RUBBER WHICH AVERAGED M\$1.62 PER KILO FOR RSSI DURING DECEMBER COMPARED M\$1.34 FROM JANUARY TO NOVEMBER 1975. GOM WILL CONTINUE EXPANSIONARY MONETARY AND FISCAL POLICIES AS NEEDED TO FINANCE ECONOMIC RECOVERY (MONEY SUPPLY INCREASED 7.8 PERCENT FIRST ELEVEN MONTHS 1975). CONSUMER PRICE INDEX FOR WHOLE OF 1975 INCREASED 4.5 PERCENT.

4. OF PARTICULAR NOTE IS ATTENTION GIVEN BY PM IN SUPPLY BILL SPEECH TO PRIVATE SECTOR SPENDING, WHICH IS EXPECTED INCREASE 5 PERCENT IN 1976. SEVERAL PAGES DEVOTED TO IMPORTANCE OF ITS ROLE; REFERENCE TO "IMPRESSIVE ARRAY OF INFRASTRUCTURE PROJECTS AND FACILITIES AVAILABLE", RANGE OF INVESTMENT INCENTIVES,recognition THAT OPERATING CONDITIONS POSSIBLY NOT PERCEIVED AS IDEAL. IT NOTES THAT "ECONOMIC POLICIES OF GOVERNMENT MAY HAVE BEEN MIS-UNDERSTOOD BECAUSE OF SOME ADMINISTRATIVE LAPSES AND DEVIATION... IN IMPLEMENTATION" AND THAT THESE PROBLEMS "CAN AND WILL BE OVERCOME". IT REFERRED TO EARLIER INVITATION OF HUSSEIN ONN "THAT PRIVATE SECTOR CAN ASSIST IN PROVIDING GOM WITH EVIDENCE OF GENUINE ADMINISTRATIVE PROBLEMS IN IMPLEMENTATION OF SUCH ECONOMIC POLICIES, SO THAT THESE CAN BE RESOLVED WITH INTERESTS OF BUSINESS AND PUBLIC IN MIND". ALSO QUOTED VERBATIM FORMER PM RAZAK'S STATEMENT AT OCTOBER 1975 INVESTMENT SEMINAR OF GOM COMMITMENT TO PRIVATE SECTOR ROLE AS CORNERSTONE TO INDUSTRIAL POLICY OF GOM. NOTES THAT GOVERNMENT SHOULD NOT PARTICIPATE MORE THAN IS NECESSARY IN PRIVATE SECTOR SINCE NATIONAL POLICY IS THAT "PRIVATE SECTOR MUST CONTINUE TO BE THE PARAMOUNT FACTOR IN DETERMINING OUR ECONOMIC PROGRAMS AS A NATION".

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5. COMMENT: ECONOMIC GROWTH PROJECTIONS FOR 1976 ARE MODERATE AND APPEAR REFLECT REALITIES OF ECONOMIC RECOVERY IN DEVELOPED WORLD, DIRECTLY RELEVANT TO MALAYSIAN ECONOMIC WELL-BEING. MAJOR

UNKNOWN IS HOW PRIVATE SECTOR, BOTH DOMESTIC AND FOREIGN, WILL RESPOND IN PRESENT ENVIRONMENT. IT MAY BE THAT GOVERNMENT, ALREADY CARRYING LARGER BURDEN OF DEVELOPMENT LOAD THAN NORMAL, HOPES FOR EARLIER INCREASE IN PRIVATE SECTOR ACTIVITY THAN WARRANTED BY CASH-FLOW AND DEMAND CONSIDERATIONS AT THIS TIME, QUITE APART FROM BASIC QUESTION OF HOW INVESTMENT CLIMATE HERE MAY BE PERCEIVED BY DOMESTIC AND FOREIGN INVESTORS (SEE KUALA LUMPUR 492). PM HAS NOTED THAT IF PRIVATE SECTOR SPENDING NOT FORTHCOMING AT EXPECTED RATE, THEN PUBLIC SPENDING WILL NEED TO BE REVIEWED, AND PRESUMABLY INCREASED, WITH RESULTANT FURTHER STRAIN ON PUBLIC SECTOR RESOURCES. IN FINAL ANALYSIS, ECONOMIC DEVELOPMENT AS PLANNED CANNOT BE ACHIEVED WITHOUT SIGNIFICANT CONTRIBUTION BY PRIVATE SECTOR AND, IN THIS REGARD, FOCUS OF PM'S ATTENTION IS WELL PLACED. AS TREASURY OFFICIAL WHO PARTICIPATED IN DRAFTING OF SUPPLY BILL SPEECH INFORMED ECON COUNSELOR, PM CAREFULLY REVIEWED PRIVATE SECTOR PORTION OF SPEECH LINE BY LINE.

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